PHILIP MORRIS USA INTER-OFFICE CORRESPONDENCE

120 PARK AVENUE, NEW YORK, NY 10017-5592

TO: Distribution **DATE:** September 1, 1992

FROM: Marketing Information & Analysis / Jeanne Kiernan

SUBJECT: PM PRIVATE LABELS - A CLOSER LOOK

In June 1992, PM's Private Labels (PM PLs) held share of 2.3, making them the second largest component of the BW/PL segment, behind GPC, which held share of 2.9. Best Value was close behind PM PLs with share of 2.2. The following examines PM PLs' performance versus other BW/PL brands.

CONCLUSIONS

- PM PLs, along with Best Value, are driving total BW/PL growth. Both BW/PL components have increased their share of the BW/PL segment +4.3 points since February, 1992.
- As measured by share in stores stocking PM PLs are the most effective component of BW/PLs. Since February they have become increasingly effective, holding an average share of 12.7 per outlet carrying them, up from 8.6 in February.
- National PM PLs' volume has been driven by Best Buy and Genco which combined accounted for over 600 million units in July 1992.
- According to Nielsen, PM PLs have had the greatest decline in retail price of the BW/PL components since February, falling -$0.42 to $10.89.
- Both PM PLs and RJR BW/PLs have grown most rapidly in Convenience and Grocery outlets. Because RJR initiated its BW/PL drive in Grocery and Convenience outlets after PM PLs began to grow rapidly there, it appears that RJR may have targeted PM PLs as a source of volume for its BW/PLs. This is not likely to be the case. In March when RJR began to push its BW/PLs, Convenience and Grocery were the trade classes with the lowest distribution. As a consequence, these were the trade classes most likely to accept the BW/PL price point, and would probably be the easiest in which to grow volume. RJR may have simply targeted the trade classes because they represented the greatest potential, not because PM PLs were growing in them.

IMPLICATIONS

- To date PM PLs are not achieving their strategic objectives. While the intent of the PM PL program was to give retailers their own Private Label brand, in the eight months ending August 1992 only 3% of total FVB shipments were Retail Private Labels, while 42% were Wholesale Private Labels.

  Low net list pricing was expected to encourage retailers to take profits on BW/PLs. Instead, retailers recognizing the value of increased traffic resulting from low BW/PL prices, have lowered their prices.

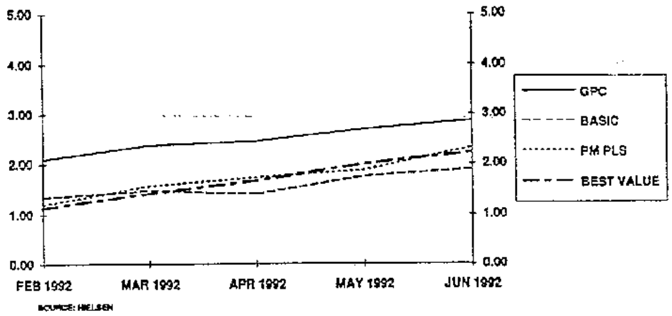
DISTRIBUTION:

2060167673

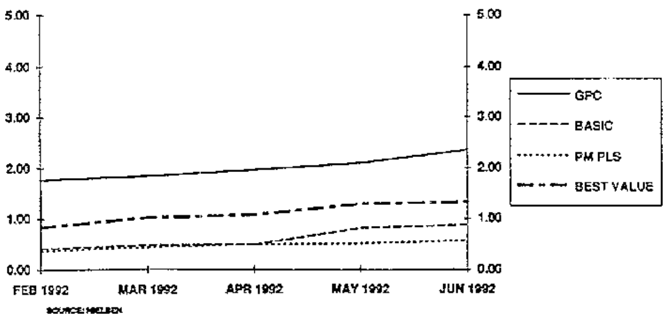
Since February, on a national basis, PM Private Labels and Best Value have had similar share gains, each up +1.1 points. PM PLs' June share of 2.3 edged out Best Value's 2.2 and makes them the second largest component of the BW/PL tier, behind GPC, which had share of 2.9.

PM PLs have dominated BW/PLs' share in Region 1, and in June 1992, they became the share leaders in Region 4 and Convenience outlets.

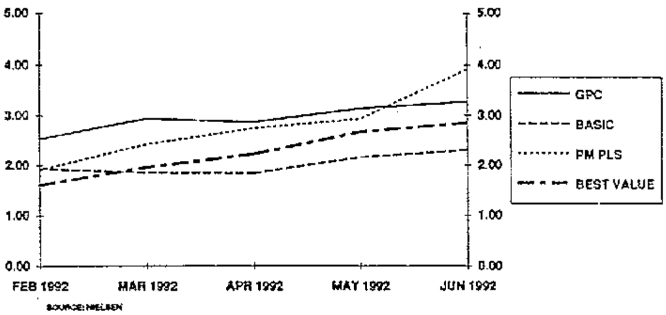
BW/PL BRANDS
1MM SHARE
TOTAL U.S.



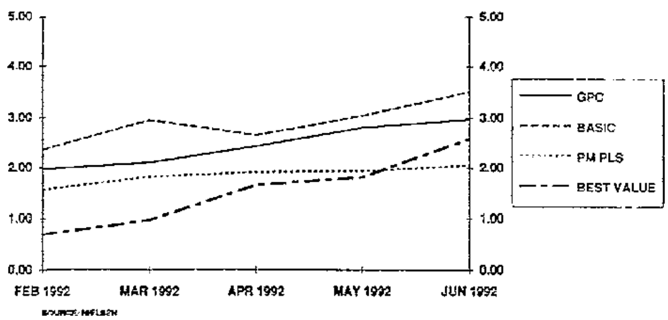
BW/PL BRANDS
1MM SHARE
SUPERMARKETS



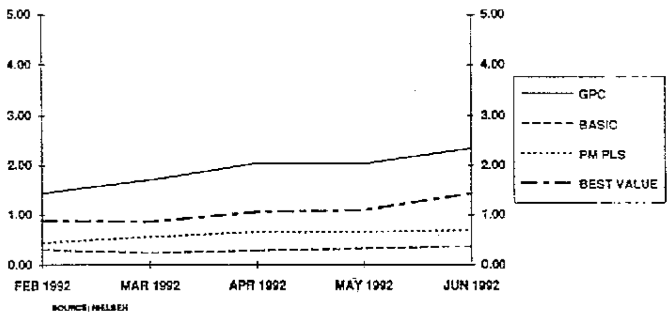
BW/PL BRANDS
1MM SHARE
CONVENIENCE

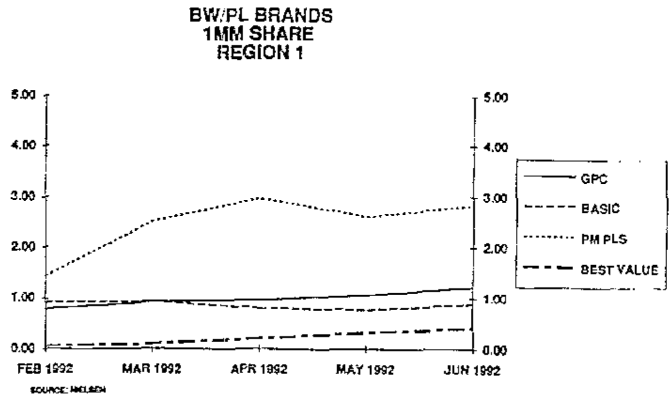


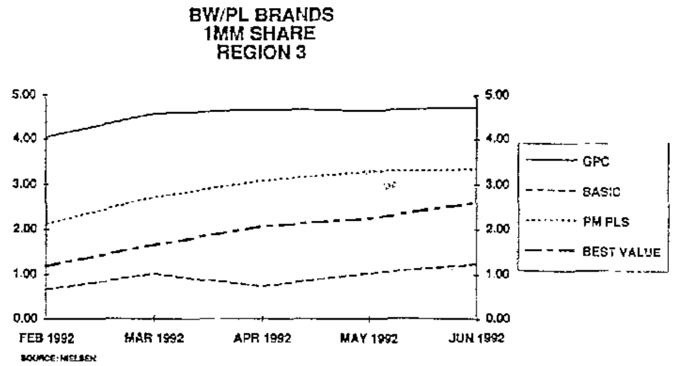
BW/PL BRANDS
1MM SHARE
GROCERY

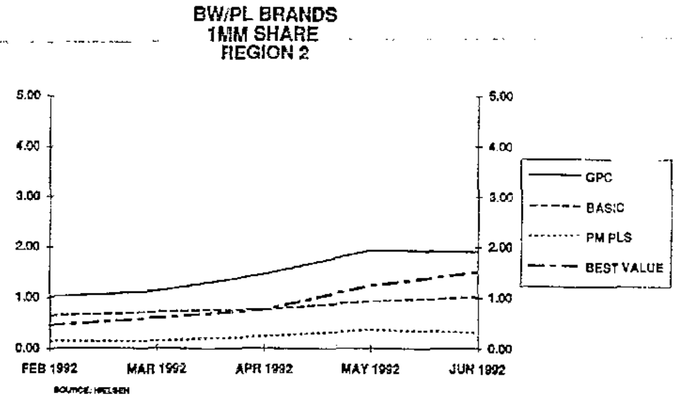


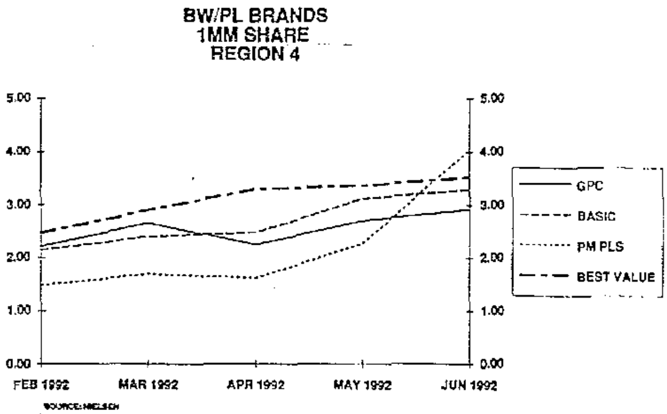
BW/PL BRANDS
1MM SHARE
DRUG

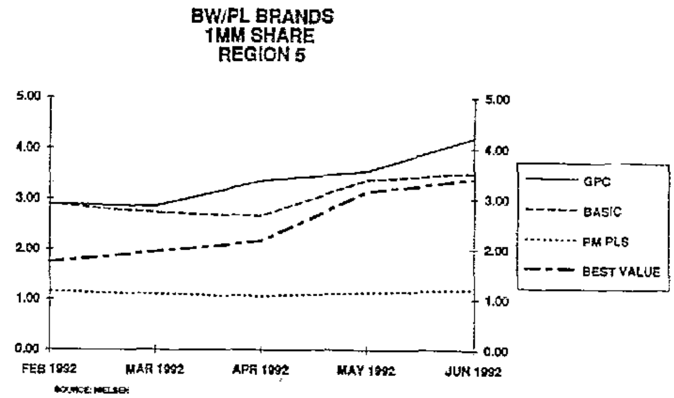



BW/PL BRANDS
1MM SHARE
REGION 1
5.00
4.00
3.00
2.00
1.00
0.00
FEB 1992
MAR 1992
APR 1992
MAY 1992
JUN 1992
GPC
BASIC
PM PLS
BEST VALUE


BW/PL BRANDS
1MM SHARE
REGION 3
5.00
4.00
3.00
2.00
1.00
0.00
FEB 1992
MAR 1992
APR 1992
MAY 1992
JUN 1992
GPC
BASIC
PM PLS
BEST VALUE


BW/PL BRANDS
1MM SHARE
REGION 2
5.00
4.00
3.00
2.00
1.00
0.00
FEB 1992
MAR 1992
APR 1992
MAY 1992
JUN 1992
GPC
BASIC
PM PLS
BEST VALUE


BW/PL BRANDS
1MM SHARE
REGION 4
5.00
4.00
3.00
2.00
1.00
0.00
FEB 1992
MAR 1992
APR 1992
MAY 1992
JUN 1992
GPC
BASIC
PM PLS
BEST VALUE


BW/PL BRANDS
1MM SHARE
REGION 5
5.00
4.00
3.00
2.00
1.00
0.00
FEB 1992
MAR 1992
APR 1992
MAY 1992
JUN 1992
GPC
BASIC
PM PLS
BEST VALUE

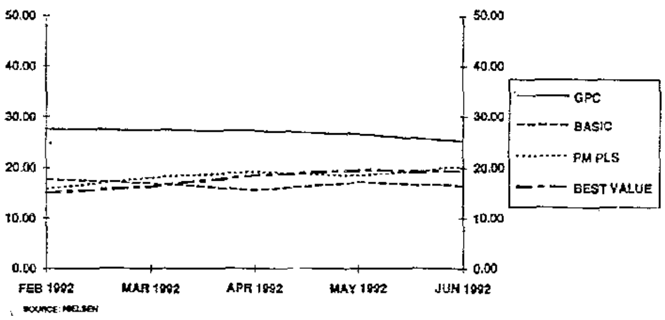
2060167675

PM PLs and Best Value have been drivers of BW/PL national growth, both increasing share of the BW/PL segment +4.3 points since February. Both GPC and Basic have lost share of the BW/PL segment since February, (down -2.5 and -1.2 respectively), meaning that they have not kept pace with the segment's growth.

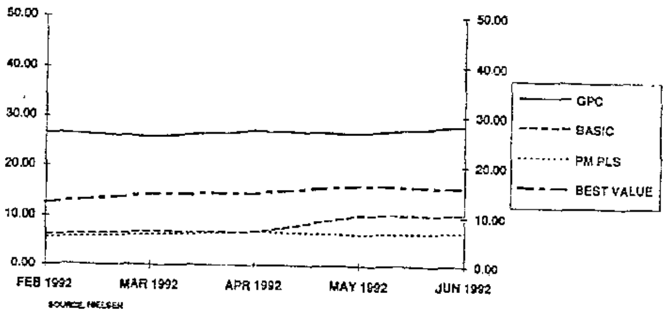
PM PLs have driven BW/PL growth in Regions 1 and 4, and in Convenience outlets. Their share of BW/PL segment increased +10.9, +10.2, and +6.4, respectively since February.

Since February, Best Value share of BW/PL segment increased over +5 points in all Regions except Region 4, where it has historically been best developed. Best Value's gains have been particularly strong in Grocery outlets, increasing +11.9 points since February.

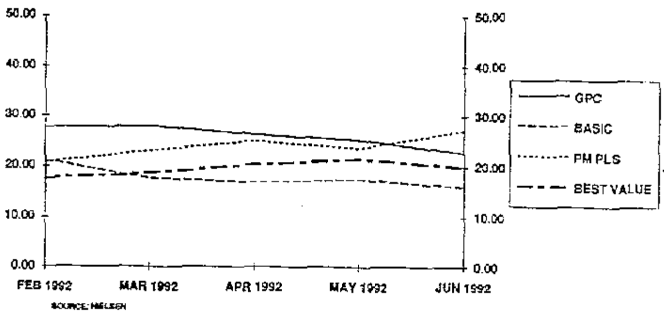
BW/PL BRANDS
1MM SHARE OF BW/PLS
TOTAL U.S.



BW/PL BRANDS
1MM SHARE OF BW/PLS
SUPERMARKETS



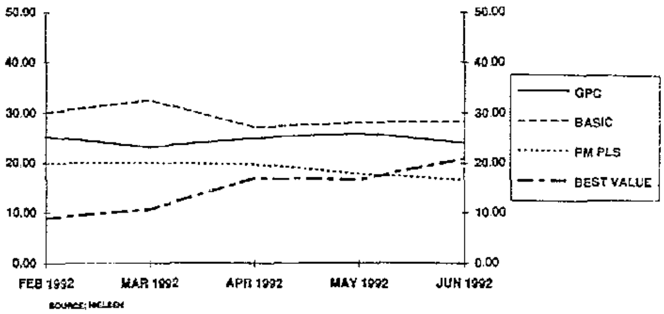
BW/PL BRANDS
1MM SHARE OF BW/PLS
CONVENIENCE



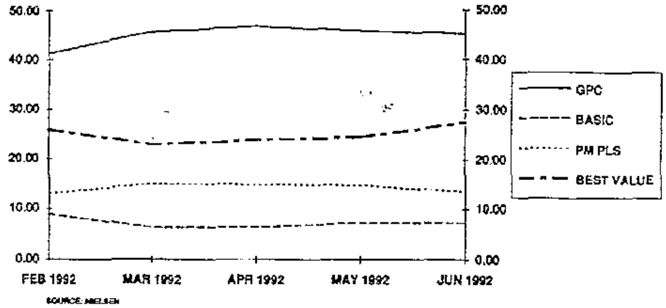
2060167676

PHILIP MORRIS PRIVATE LABELS
September 1, 1992

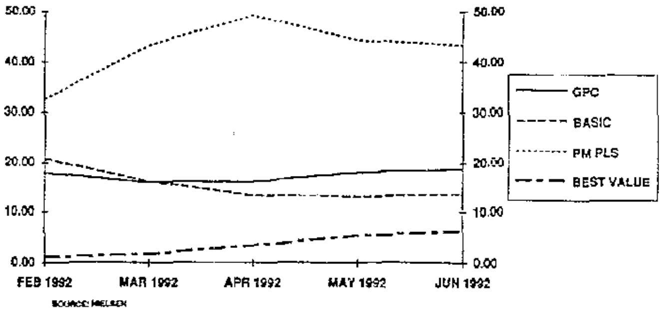
BW/PL BRANDS
1MM SHARE OF BW/PLS
GROCERY



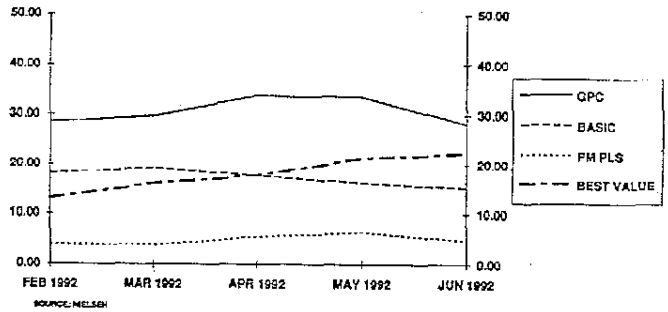
BW/PL BRANDS
1MM SHARE OF BW/PLS
DRUG



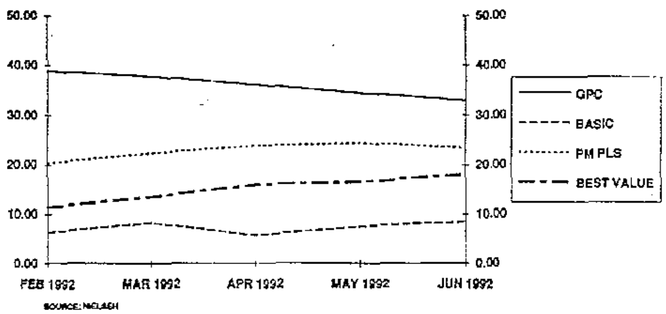
BW/PL BRANDS
1MM SHARE OF BW/PLS
REGION 1



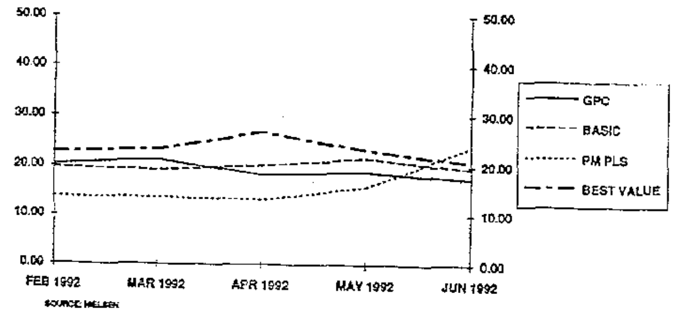
BW/PL BRANDS
1MM SHARE OF BW/PLS
REGION 2



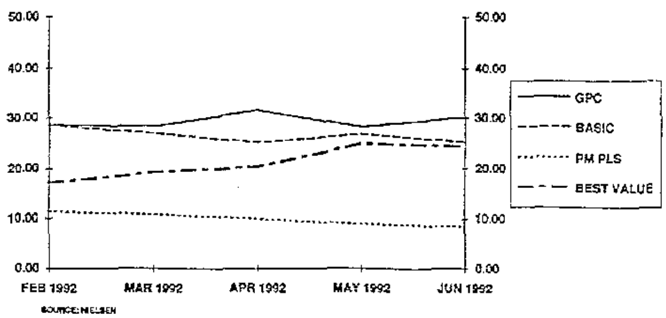
BW/PL BRANDS
1MM SHARE OF BW/PLS
REGION 3



BW/PL BRANDS
1MM SHARE OF BW/PLS
REGION 4



BW/PL BRANDS
1MM SHARE OF BW/PLS
REGION 5

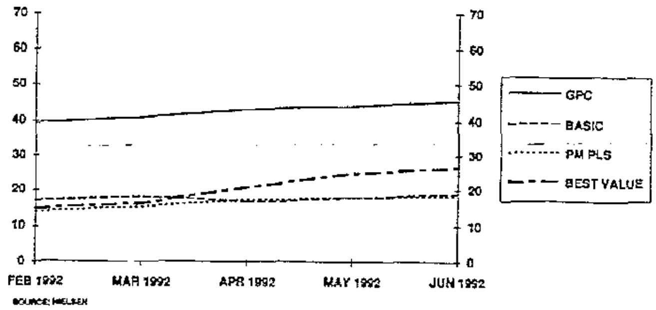


2060167677

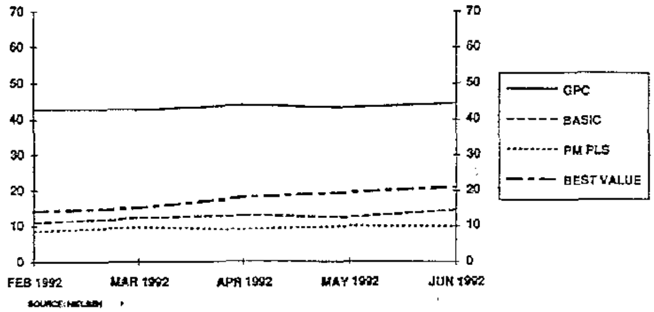
GPC's national share strength may be attributable in part to its widespread distribution. In all Regions and Trade Classes, GPC is the most widely available component of the BW/PL segment.

PM PLs have the lowest national distribution of the BW/PL components at 18%. Their highest distribution is in Region 4, at 30%.

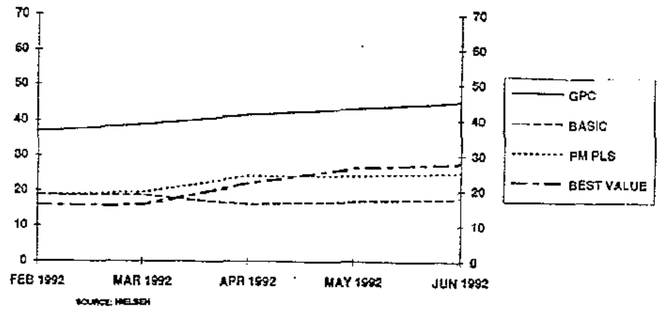
BW/PL BRANDS
1MM DISTRIBUTION
TOTAL U.S.



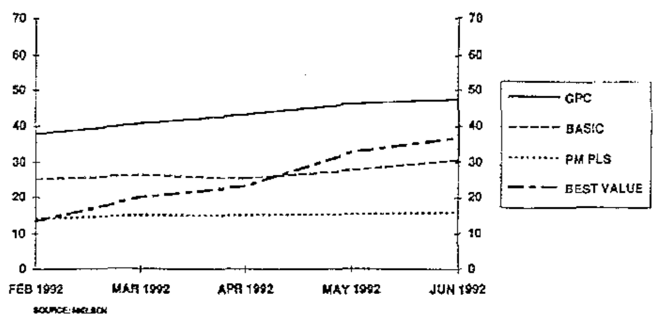
BW/PL BRANDS
1MM DISTRIBUTION
SUPERMARKETS



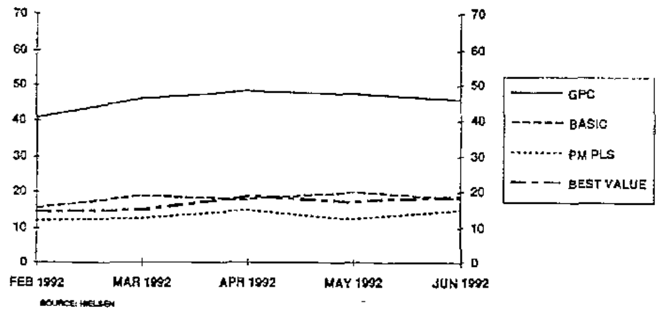
BW/PL BRANDS
1MM DISTRIBUTION
CONVENIENCE



BW/PL BRANDS
1MM DISTRIBUTION
GROCERY



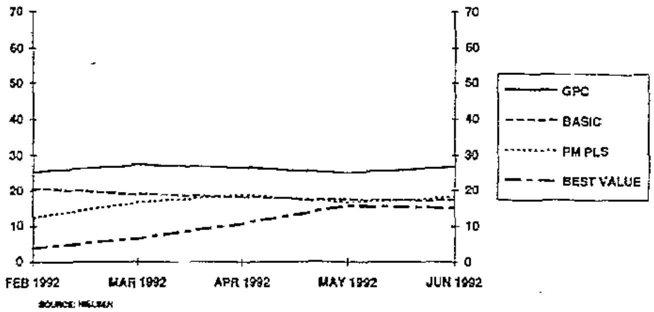
BW/PL BRANDS
1MM DISTRIBUTION
DRUG



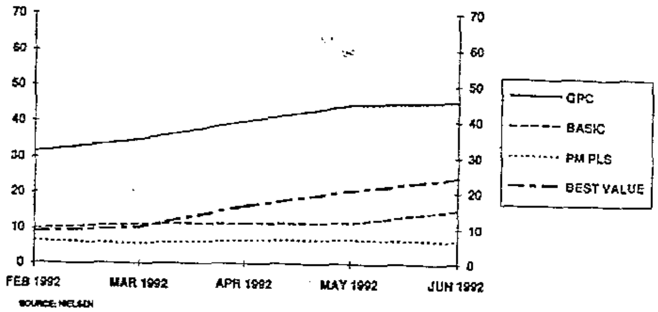
2060167678

PHILIP MORRIS PRIVATE LABELS
September 1, 1992

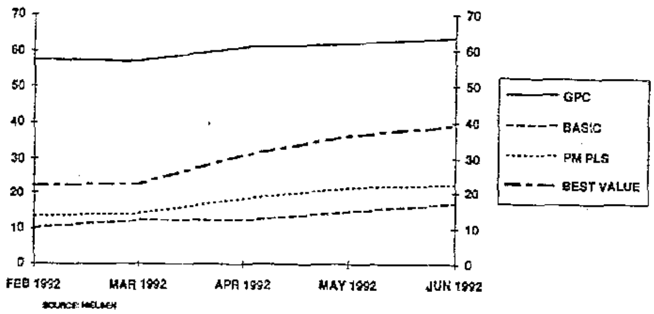
BW/PL BRANDS
1MM DISTRIBUTION
REGION 1



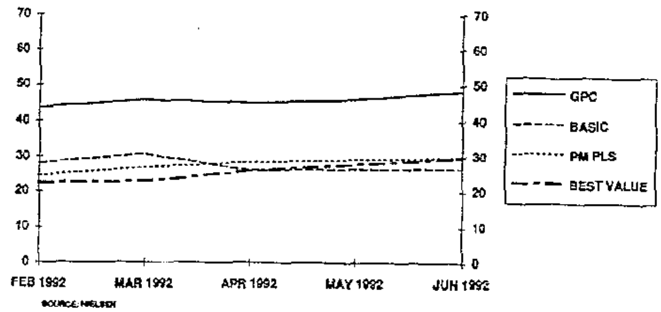
BW/PL BRANDS
1MM DISTRIBUTION
REGION 2



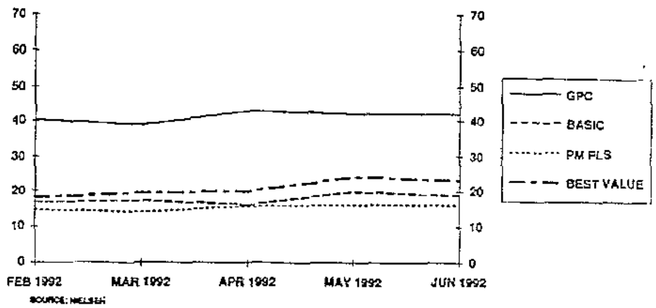
BW/PL BRANDS
1MM DISTRIBUTION
REGION 3



BW/PL BRANDS
1MM DISTRIBUTION
REGION 4



BW/PL BRANDS
1MM DISTRIBUTION
REGION 5

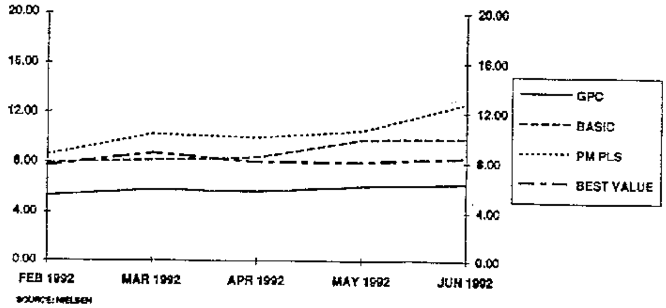


2060167679

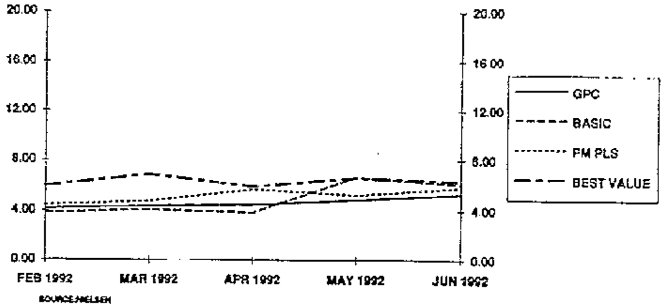
PM PLs' strong share relative to their low distribution have made them the leading BW/PL component as measured by share in stores stocking. Note that both PM BW/PL entries, Private Labels and Basic, have had the largest increases in share in stores stocking since February (+4.1 and +2.1, respectively). In Convenience outlets, both brands had large gains with Basic up +2.6 from February levels, and PM PLs up +5.3.

Not surprisingly, PM PLs' gains were greatest in Regions 1 and 4, up +4.1 and +7.6, respectively. Basic's largest gain was also in Region 4, up +4.8.

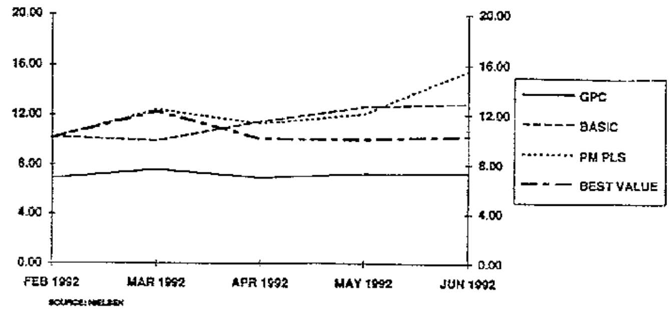
BW/PL BRANDS
1MM SHARE IN STORES STOCKING
TOTAL U.S.



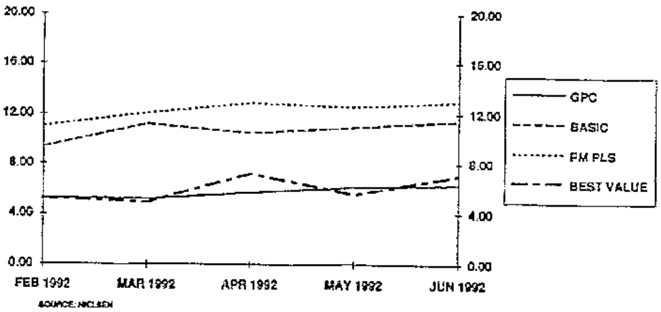
BW/PL BRANDS
1MM SHARE IN STORES STOCKING
SUPERMARKETS



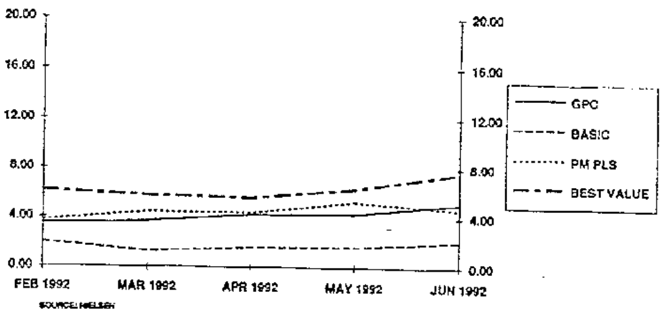
BW/PL BRANDS
1MM SHARE IN STORES STOCKING
CONVENIENCE



BW/PL BRANDS
1MM SHARE IN STORES STOCKING
GROCERY



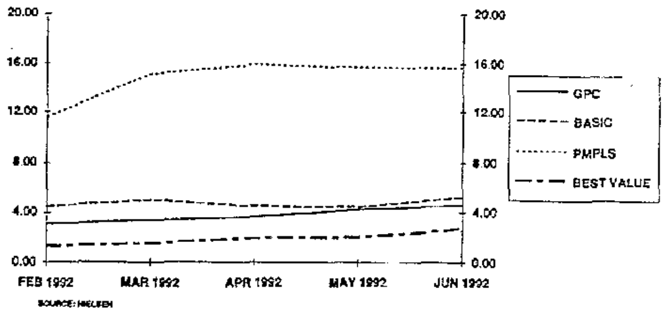
BW/PL BRANDS
1MM SHARE IN STORES STOCKING
DRUG



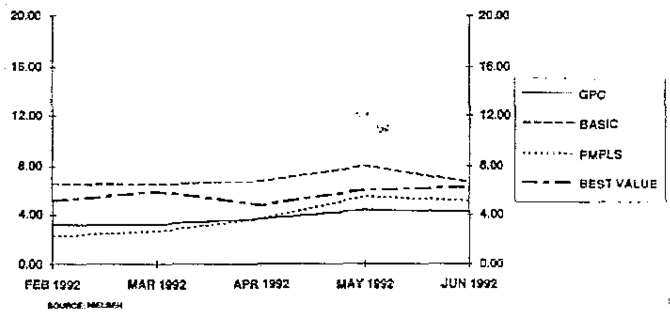
2060167680

PHILIP MORRIS PRIVATE LABELS
September 1, 1992

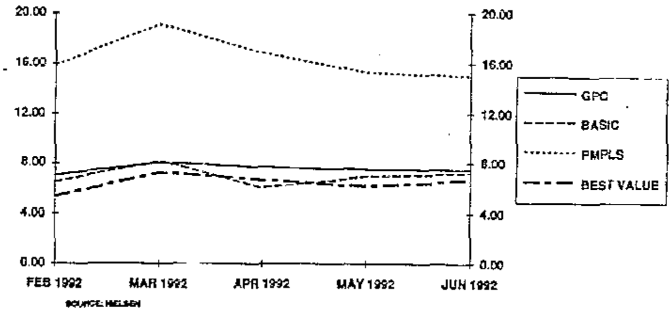
BW/PL BRANDS
1MM SHARE IN STORES STOCKING
REGION 1



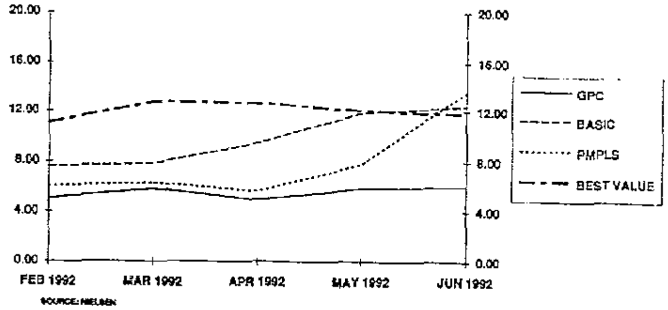
BW/PL BRANDS
1MM SHARE IN STORES STOCKING
REGION 2



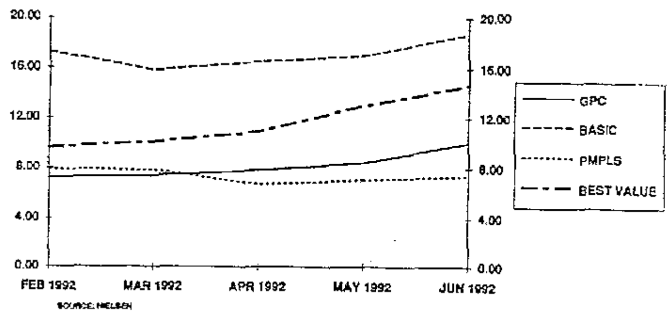
BW/PL BRANDS
1MM SHARE IN STORES STOCKING
REGION 3



BW/PL BRANDS
1MM SHARE IN STORES STOCKING
REGION 4



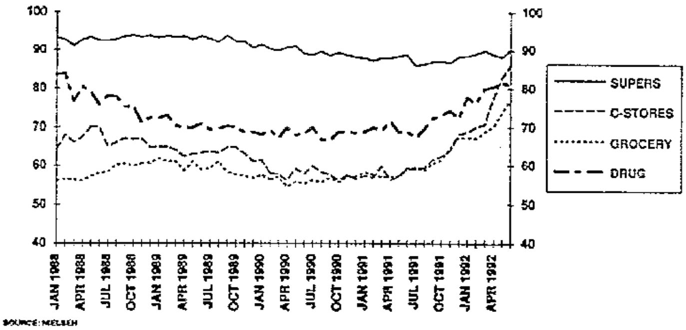
BW/PL BRANDS
1MM SHARE IN STORES STOCKING
REGION 5



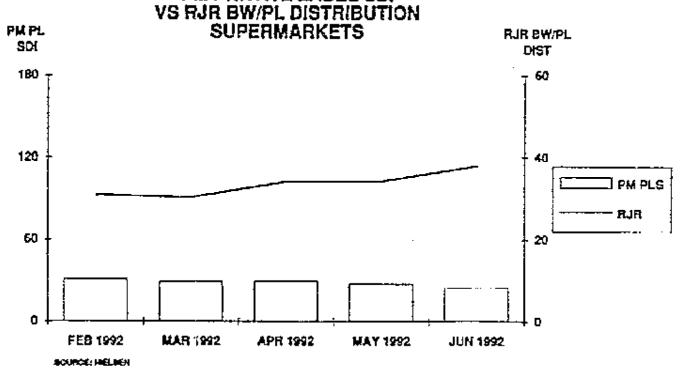
2060167681

There has been some speculation that RJR may be targeting PM PLs as the source for its BW/PL volume. PM PLs' development is greatest in Convenience and Grocery outlets, and RJR BW/PL distribution has grown most rapidly there. Note, however, that at the time RJR's distribution begun to accelerate, these two trade classes had relatively low levels of distribution, suggesting that RJR's strategy may have been to take advantage of the relatively low BW/PL penetration in Convenience and Grocery, rather than specifically target PM PLs for volume.

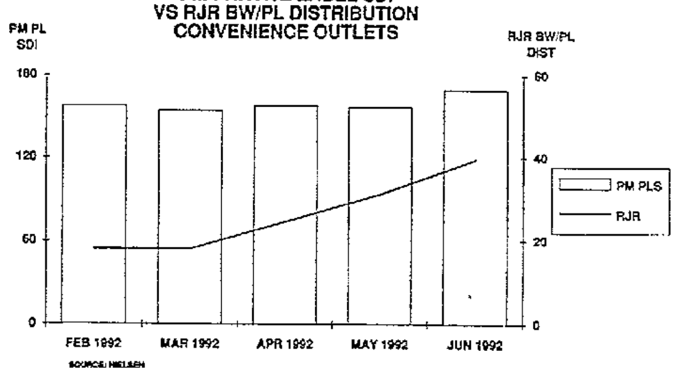
TOTAL BW/PL
1MM DISTRIBUTION (ANY PACKING)



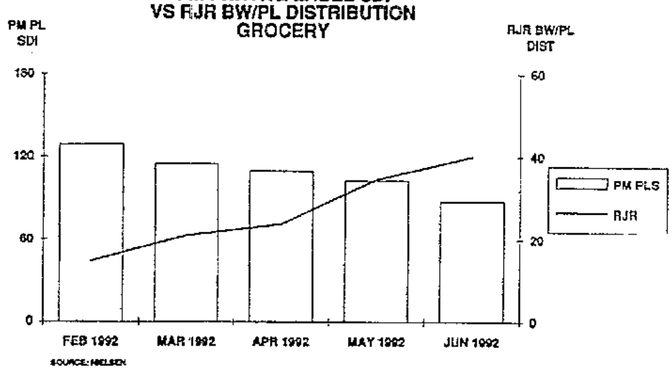
PM PRIVATE LABEL SDI
VS RJR BW/PL DISTRIBUTION
SUPERMARKETS



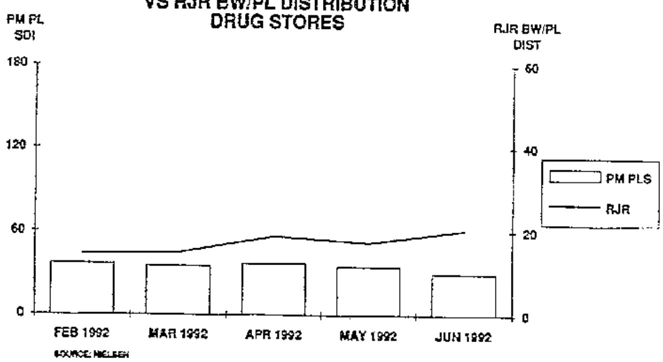
PM PRIVATE LABEL SDI
VS RJR BW/PL DISTRIBUTION
CONVENIENCE OUTLETS



PM PRIVATE LABEL SDI
VS RJR BW/PL DISTRIBUTION
GROCERY

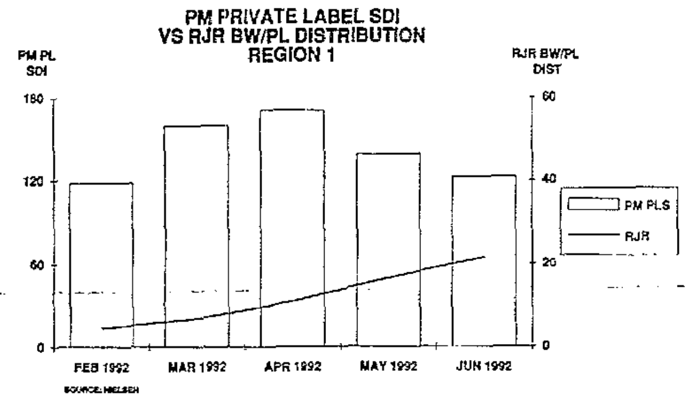


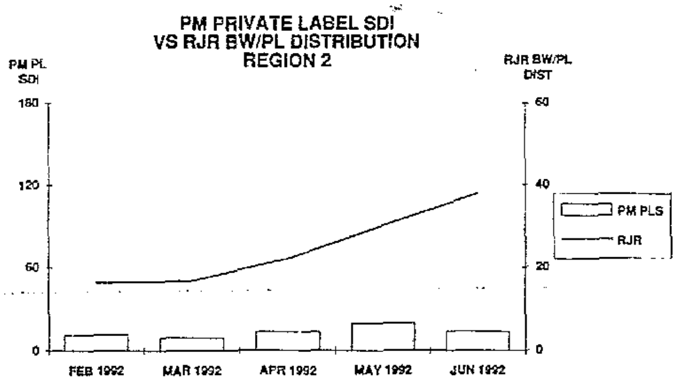
PM PRIVATE LABEL SDI
VS RJR BW/PL DISTRIBUTION
DRUG STORES

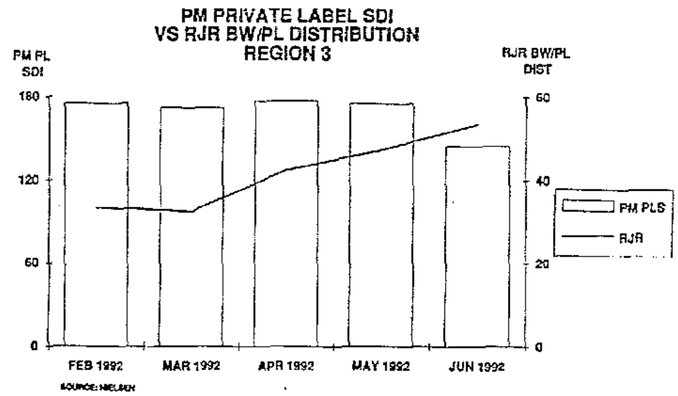


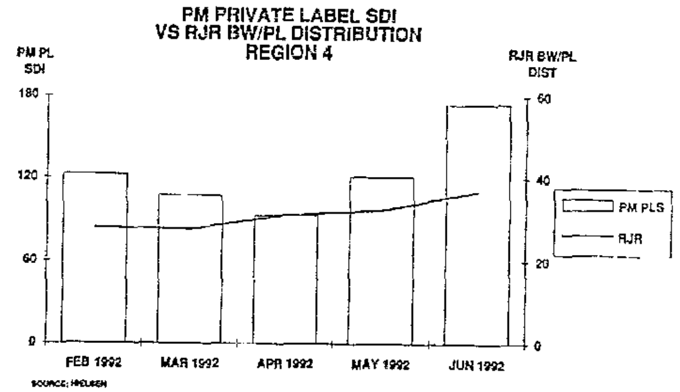
2060167682

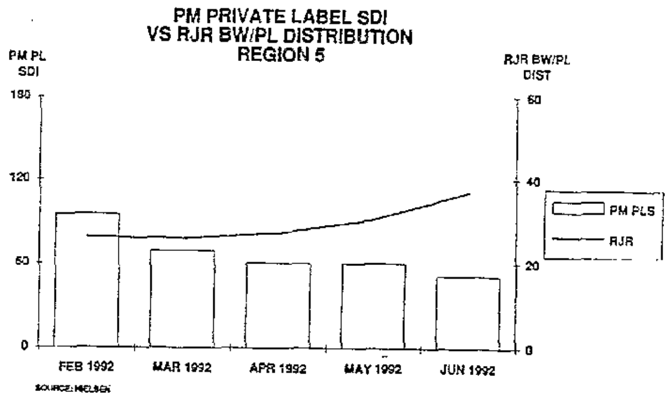
Geographically, the relationship between PM PLs and RJR BW/PLs is not strong. RJR's strongest distribution gains since February have been in Regions 1, 2, and 3. While Regions 1 and 3 are well developed for PM PLs, Region 2 is not.







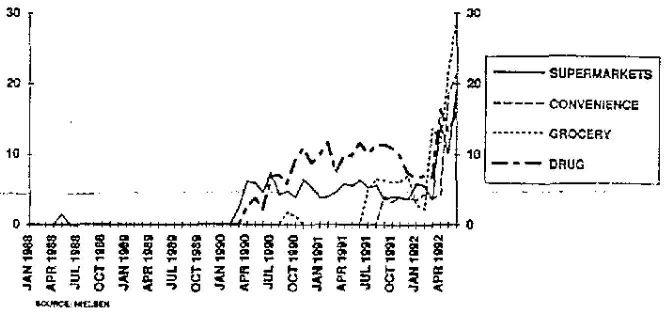




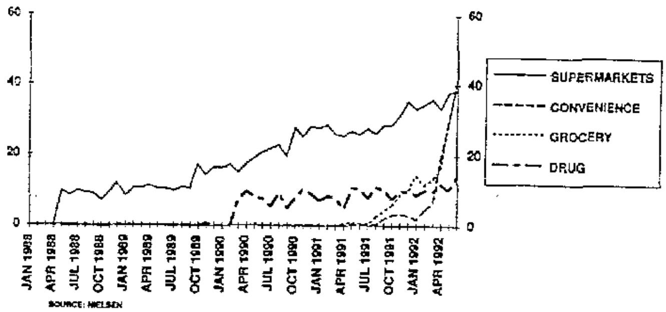
2060167683

Examination of RJR's distribution gains since March in trade classes within Regions reveals that increases in all Regions except Region 4, have been greatest in Convenience and Grocery outlets. Region 4 Convenience outlets had historically been the best developed for RJR BW/PLs, possibly explaining its lower level of increase.

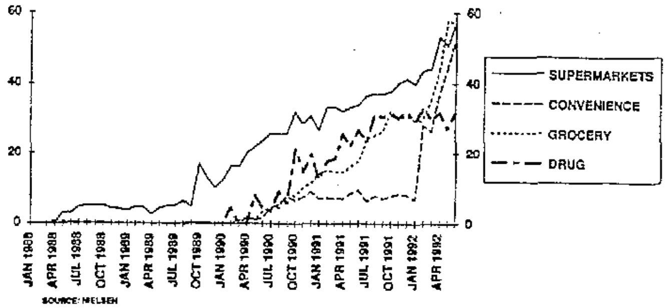
RJR BW/PL
1MM DISTRIBUTION IN TRADE CLASSES
REGION 1



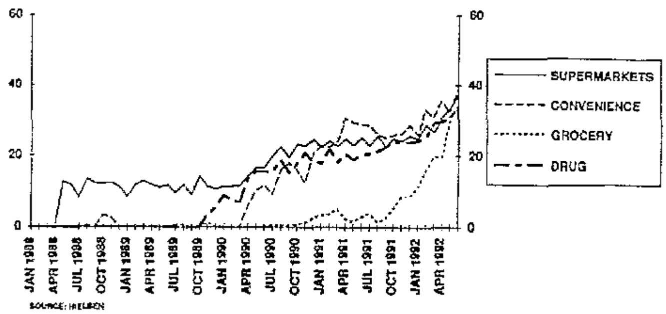
RJR BW/PL
1MM DISTRIBUTION IN TRADE CLASSES
REGION 2



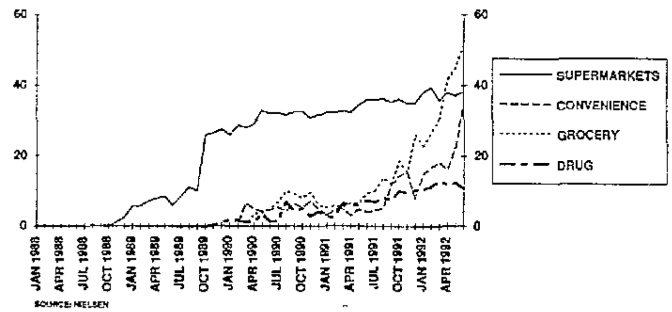
RJR BW/PL
1MM DISTRIBUTION IN TRADE CLASSES
REGION 3



RJR BW/PL
1MM DISTRIBUTION IN TRADE CLASSES
REGION 4



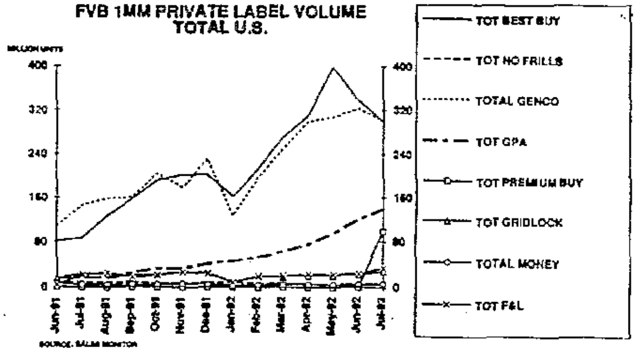
RJR BW/PL
1MM DISTRIBUTION IN TRADE CLASSES
REGION 5

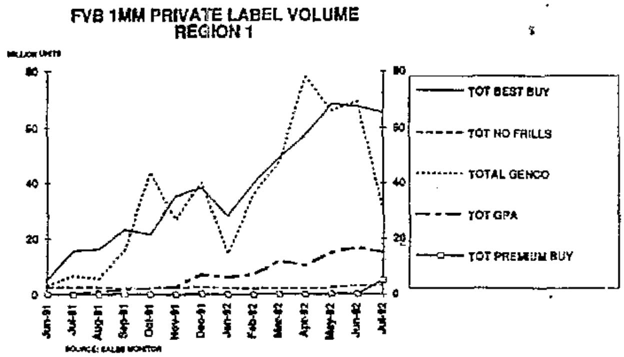


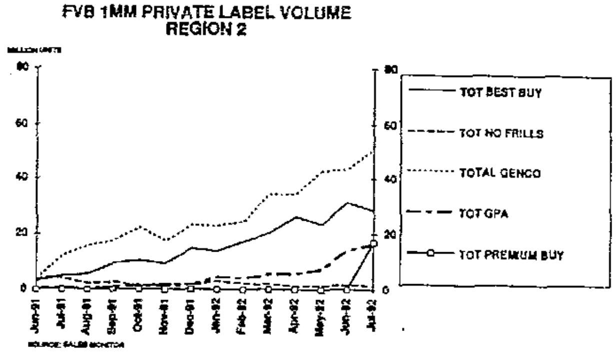
2060167684

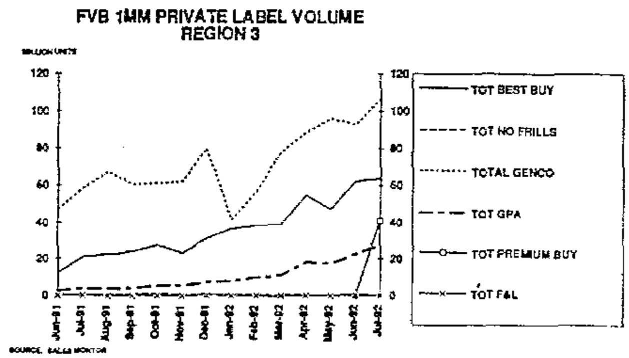
PHILIP MORRIS PRIVATE LABELS
September 1, 1992
Page 13

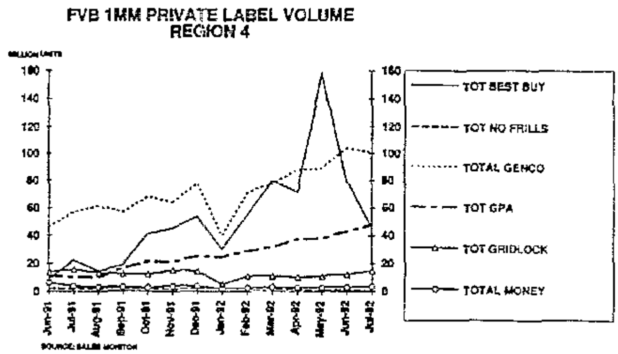
National PM PLs' volume has been led by Best Buy and Genco. Genco is the volume leader in Regions 2 and 3 while Best Buy dominates in Region 5. In Region 1 the two brands have similar growth patterns.

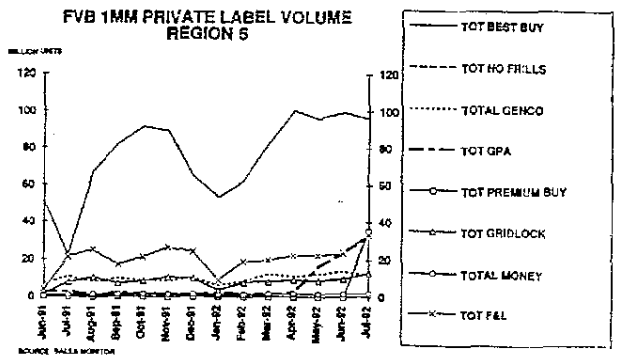






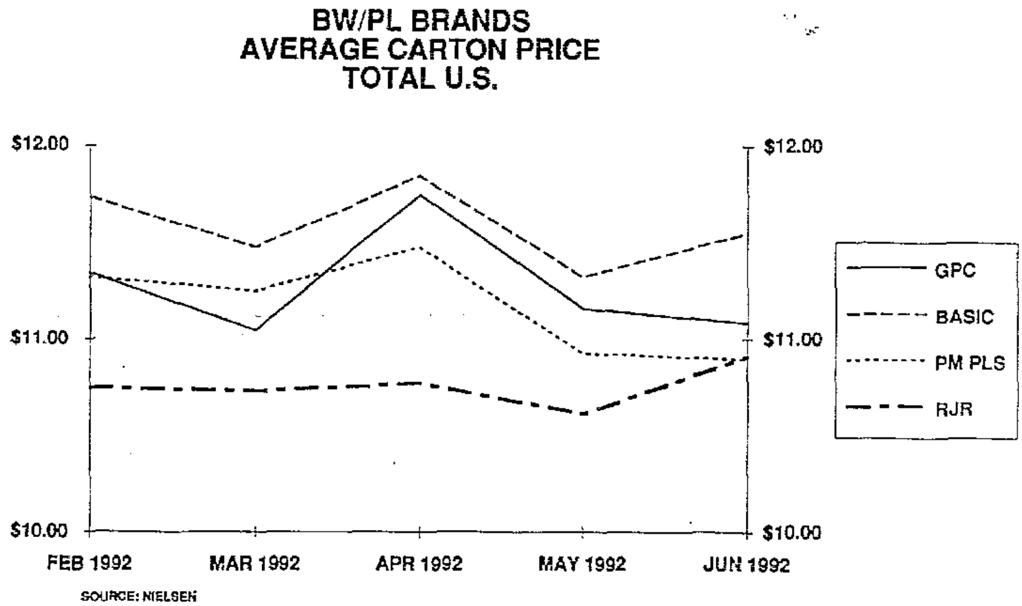






2060167685

Pricing data from Nielsen reveal that PM PLs' retail carton prices have declined more than any other BW/PL component, off -$0.42 since February.



2060167686